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FISCAL IMPACT STATEMENT

LS 6652 **NOTE PREPARED:** Mar 12, 2013
BILL NUMBER: SB 526 **BILL AMENDED:** Mar 11, 2013

SUBJECT: PERF Membership and Retirement Benefits.

FIRST AUTHOR: Sen. Boots **BILL STATUS:** As Passed House
FIRST SPONSOR: Rep. Burton

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill provides the following:
(1) After June 30, 2013, members and full-time employees of the State Lottery Commission are members of the Public Employees' Retirement Fund (PERF).
(2) A member of PERF who retires before July 1, 2013, and is reemployed in a position covered by PERF continues to receive a retirement benefit, but does not earn a supplemental retirement benefit for the member's period of reemployment. (Currently, a member of the Indiana State Teachers' Retirement Fund (TRF) who retires and is reemployed in a position covered by TRF continues to receive a retirement benefit, but does not earn a supplemental retirement benefit for the member's period of reemployment.)

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Changes in PERF Supplemental Retirement Benefit* - The bill requires that rehired retirees may not participate in PERF. Currently, retirees may be rehired and reinstated in the PERF Plan, and the rehired retiree earns an additional retirement benefit during their period of reemployment. The changes contained in the bill are estimated to decrease the unfunded actuarial liability of PERF by $5.5 M, while lowering employer contribution rates slightly. Specifically, the state portion of PERF will have its unfunded actuarial liability decreased by $1.8 M. This provision will have no change on the funding ratio of PERF.

(Revised) *State Lottery Commission Transfer to PERF* - This bill will require current and future employees of the State Lottery Commission to become members of PERF. Not later than July 1, 2014, the present value of the retirement benefit payable at the plan's normal retirement age that is attributable to each current participant in the Lottery Commission's defined benefit retirement plan will be transferred to PERF. Each affected employee is entitled to receive creditable service in PERF for all service performed for the Lottery Commission prior to July 1, 2013. However, no amounts shall be transferred from the Lottery Commission for payment into an affected employee's PERF annuity savings account for years of previous creditable service. The bill will affect approximately 40 current employees of the Lottery Commission.

The costs of this bill are defined as the actuarial accrued liability of the Lottery Commission Plan, plus any costs associated with "unwinding" the Lottery Commission Plan. Funds equal to the actuarial accrued liability of the Lottery Commission members for current participants that will enter PERF must be paid to PERF prior to July 1, 2014. The amount to be transferred is estimated to be between $1.4 M and $2 M.

According to the bill, any benefits that were accrued by a current Lottery Commission Plan participant transferring to PERF may not be diminished in the transfer. To the extent that a participant's Lottery Commission Plan benefit exceeds the amount transferred to PERF on their behalf, the Lottery Commission will remain obligated to fund the excess amount of benefit.

Costs associated with unwinding the Lottery Commission Plan include actuarial fees and investment management fees. The one-time actuarial and payout costs are estimated to total approximately $50,000. Monthly management fees are approximately $3,300 until such time as all of the funds necessary to cover the actuarial accrued liability of the Lottery Commission Plan are transferred to INPRS. These costs will be paid by the Lottery Commission.

Background: PERF (State) - PERF is prefunded by employer (state and local) contributions that are actuarially calculated to equal the benefit accrual cost for the year (normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. As of July 1, 2012, employer contributions for state PERF were 9.7% of payroll. As of January 1, 2013, aggregate employer contributions for local PERF were 9.73% of payroll. For prefunded plans, costs are defined as the increase in the unfunded actuarial liability of the fund.

(Revised) *Lottery Commission Pension Plan* - The State Lottery Commission has its own pension plan, which as of July 1, 2012, had a total pension liability of $15 M, an unfunded accrued liability of $3 M, and a funding ratio of 80.1%.

Explanation of State Revenues:

Explanation of Local Expenditures: *Changes in PERF Supplemental Retirement Benefit* - The bill is estimated to impact local PERF employers by decreasing the unfunded actuarial liability of local PERF by $3.7 M, lowering local PERF employer contribution rates slightly.

Explanation of Local Revenues:

State Agencies Affected: INPRS, State Lottery Commission.

Local Agencies Affected: Indiana Public Retirement System; Indiana State Lottery Commission.

Information Sources: Greg Witter, INPRS, gwitter@inprs.in.gov; Timothy Kuehr, Hoosier Lottery, tkuehr@hoosierlottery.in.gov; State Lottery Commission of Indiana Financial Statements as of and for the years ended June 30, 2012, and 2011.

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Definitions: *Unfunded Actuarial Liability* -Sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding Ratio - A ratio of a pension or annuity's assets to its liabilities.